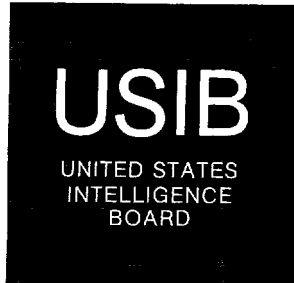


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USSR-EGYPT

General Secretary Brezhnev's commitment to visit Cairo has substantially improved the atmosphere of Soviet-Egyptian relations. Nevertheless, the apparent inability of Foreign Minister Fahmi and the Soviets to agree on the usual communiqué and the differing emphasis in Soviet and Egyptian public statements indicate that resolution of serious differences awaits Brezhnev's trip.

The two sides did issue a statement reiterating their standard views on the Palestinian question. They affirmed that a Middle East peace settlement must secure Palestinian rights, including a "national entity," and that the Palestine Liberation Organization should attend the Geneva conference in an independent capacity and on an equal footing with other participants. The separate versions of the statement issued by Moscow and Cairo differed in some respects. The Soviet version, for example, attached more urgency to reconvening the Geneva conference than did Cairo's.

The Egyptian press claims Cairo did gain some specific economic commitments, including a doubling of Moscow's coal shipments, but these seem to satisfy Egyptian demands only partially. The Egyptian press says that several working-level groups will meet before Brezhnev's visit to lay the groundwork for possible military and economic accords.

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EGYPT-USSR

Egyptian media have treated Foreign Minister Fahmi's visit to Moscow as a triumph for Egypt's independent foreign policy. Although by no means lacking in warm expressions of friendship for the Soviets, the commentary has taken the line that the restoration of good relations was not the result of Egypt's importuning, but of Moscow's realization that amicable ties are in its strategic interests.

Fahmi's visit and the announcement of Brezhnev's intention to come to Cairo in January have brought an outpouring of expressions of "deep" friendship for Moscow. The press has heaped gratitude on the Soviets for helping Egypt in some of the "gravest moments of its history." At the same time, the Egyptians have lost no opportunity to affirm their continued intention to maintain policies independent of the Soviets.

One commentator praised Soviet support for anti-colonialism, but pointedly added that Moscow backs all peoples who seek to chart their own futures "remote from spheres of influence." President Sadat has frequently used this term in talking of Egypt's desire to remain independent of tutelage by either superpower. The commentator further noted that, just as Egypt needs good relations with Moscow, the Soviets also cannot forfeit their friendship with Egypt because they recognize the central role Cairo plays in an area of the world that is vital to their interests.

Al-Ahram editor Ahmad Baha ad-Din put the case more bluntly. Writing from Moscow, where he accompanied Fahmi, he asserted on Thursday that a "nationalist"--that is independent--policy will continue to be exercised from Cairo. Possibly in response to criticism Fahmi received from the Soviets while in Moscow, Baha ad-Din asserted Moscow now understands that Egypt has "the right" to deal with the US, agrees that it must coordinate Arab strategy before rushing to reconvene the

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Geneva conference, and accepts the fact that the Egyptian economic liberalization program to which the Soviets have previously objected, is a purely domestic matter.

Although the editor may be overstating Soviet "understanding," he claimed that Soviet acceptance of the Egyptian viewpoint came after a "simple calculation" by Moscow: Egypt is indisputably the key to the Middle East, and "it is impossible to go over Egypt's head if any solution to any problem in the area is desired."

Whatever the unresolved problems remaining from the Fahmi visit, the Egyptians clearly see Soviet acquiescence in a Cairo summit as a vindication of Sadat's refusal to bow to Soviet pressures against his foreign and domestic policies. Cairo is almost cocky in its belief that all superpower roads in the Middle East lead through Egypt, and the confirmation of this belief given by Brezhnev's scheduled visit will reinforce Egyptian determination to remain free of outside pressures.

The Egyptians undoubtedly intend this as a message to the US as well. They have little fear of US interference in their affairs, as they do with possible Soviet interference, but they probably see the rapprochement with Moscow as helpful in pressing the US toward further movement both in peace negotiations and in economic assistance.

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NATO-PORTUGAL

NATO's problems in dealing with the leftist government in Portugal are coming to a head. An immediate question is whether Portuguese representatives should be permitted to attend the meeting in Rome next month of the Alliance's Nuclear Planning Group.

NATO security officers visited Portugal recently to study how the Portuguese are safeguarding classified NATO documents, particularly those dealing with nuclear weapons, planning, and strategy. This week, they recommended to NATO Secretary General Luns that, pending an improvement in the security situation, Lisbon should no longer be given information about nuclear matters. The security team also suggested that the Portuguese should no longer participate in the Nuclear Planning Group or its staff meetings.

Lisbon, however, has already informed NATO that it is sending a delegation to the meeting. Among those planning to participate is Admiral Pinheiro de Azevedo, a suspected leftist who is serving as acting president while Costa Gomes is out of the country.

Luns has told the US chargé at NATO he would prefer that the Portuguese not come to Rome, but he fears that if Lisbon is excluded, both the US and NATO will become targets for propaganda exploitation and that NATO-Portuguese relations will suffer.

Luns has proposed that, if the US agrees, he will suggest to the Portuguese ambassador to NATO on Monday that Lisbon not attend the meeting. If the Portuguese insist--which they are likely to do--Luns would like to tell the Portuguese that they may attend.

A decision to exclude the Portuguese would run the danger of antagonizing the new government in Lisbon and precipitating anti-NATO actions by the Portuguese. The other alternatives are to have a "watered-down" meeting, as suggested by Luns, which would only postpone dealing with the issue, or to risk having sensitive information compromised.

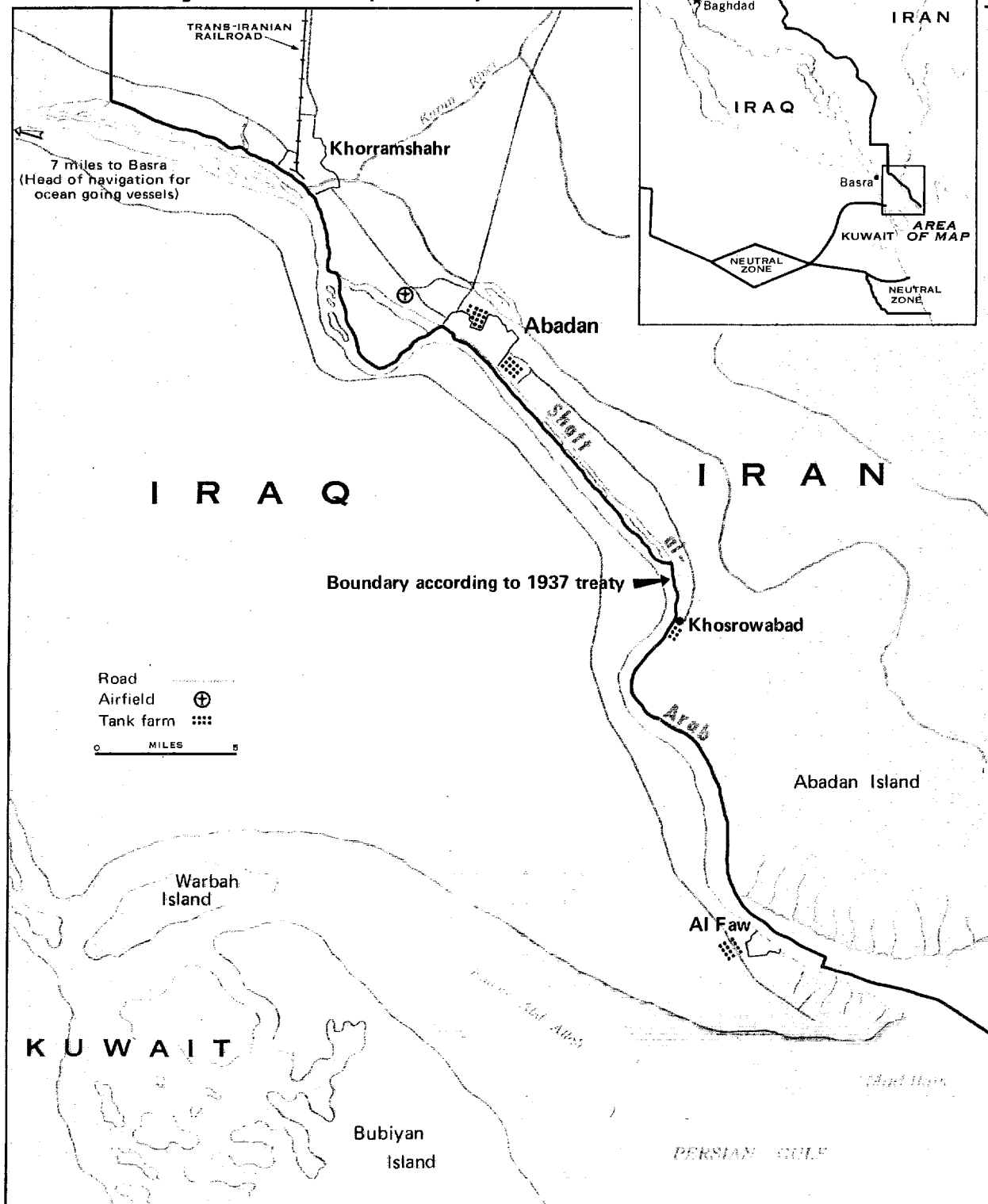
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### Shatt al-Arab Segment of Iran-Iraq Boundary



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IRAN-IRAQ

Tehran has discontinued talks with Iraq aimed at settling bilateral differences.

After preliminary discussions in Istanbul, both sides agreed in August to talks at the UN on the foreign minister level. At their first meeting on October 11, Foreign Ministers Khalatbari from Iran and Taqa from Iraq indicated they were prepared to discuss several problems, but neither showed any flexibility on the major issue--Iran's demand that the Shatt al-Arab border be redrawn. Tehran takes the position that the treaty of 1937, which placed the boundary on the Iranian side of the river, was unfairly imposed by the British. The Shah proposes a midchannel boundary.

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The discussions were probably doomed from the start because of a basic hostility between the Iranian monarchy and the Iraqi Baathists. Continuing Iranian aid to the rebellious Kurds has further angered Baghdad and has led to border violations and repeated propaganda attacks by both sides.

A recent diplomatic incident may also have convinced the Shah that Iraq was not serious about the talks. The Iraqis recently returned an Iranian diplomatic note because it referred to the "Persian Gulf," rather than the "Arab Gulf." Last month, the Shah strongly protested the use of the term "Arab Gulf" to several Arab governments, and he probably regarded the Iraqi action as a calculated affront.

Tehran has never been enthusiastic about the talks and is not likely to be seriously disturbed by their failure. Nonetheless, Iran does not want to be identified as the obstacle to improved relations with Baghdad, and may try to keep alive the possibility that the talks will resume.

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ITALY

Prime Minister - designate Fanfani is in the midst of hard bargaining for a new center-left government after several days of preliminary talks with other political leaders.

The Christian Democratic leader has won the unanimous support of his own party for a program reportedly designed to strike a compromise between advocates of economic austerity and those, like the Socialists, who want an increased commitment to social spending. Fanfani is trying to sell his ideas to each of the coalition parties individually. If successful, he will convene a meeting of all four parties--Christian Democrats, Socialists, Social Democrats, and Republicans--within a few days. Barring major snags, Fanfani could wrap up negotiations by the end of next week.

His efforts, however, are hampered not only by opposing party positions, but also by divisions within the Socialist Party--the major protagonist in the current dispute. After meeting with Fanfani this week, Socialist chief De Martino took a "positive" view toward relaunching the coalition. De Martino's freedom of maneuver is limited, however, by strong minority opposition within his party to the economic and political compromises necessary to re-enter the government.

Fanfani is noted for his flamboyance. If he succeeds in reviving the center-left coalition, he will probably produce some dramatic flourishes to distinguish the new government from its long string of predecessors. He reportedly wants to streamline the cabinet by reducing the number of portfolios. Fanfani is also talking about "fresh faces," and may try to curtail participation by a number of senior politicians who have been shuffling in and out of Italian governments since the war.

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These would be drastic steps, however, and Fanfani may have to settle for an intermediate measure, such as the appointment of prominent "technocrats" to several key economic ministries. Fiat President Giovanni Agnelli and Bank of Italy Governor Guido Carli are potential candidates for such positions.

Labor unrest has continued to grow as the political stalemate entered its third week. The federation that represents all of Italy's major unions called a nationwide general strike on Thursday to back up demands for increased wages and benefits. Fiat installations in Rome were damaged yesterday by fire and bombs. Although there is no evidence to connect labor with the attacks, Fiat has been the main target of labor protest since the company put one third of its employees on a short work week earlier this month.

The Communists, meanwhile, are avoiding actions that could damage Fanfani's prospects. They fear that new general elections might have to be held if Fanfani fails and that these would interfere with regional contests already scheduled for the spring. The Communists are confident of gains in the regional elections and do not want anything to upset the timetable.

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Leaders of Portugal's Socialist Party are having some success in persuading fraternal parties in Western Europe to provide financial and organizational support. A number of West European government and party leaders are scheduled to visit Lisbon in coming weeks to observe at first hand the political situation, especially ways to prevent the Socialists from being outdistanced by the Communist Party, which is well organized and financed.

West German Social Democratic leader Willy Brandt will make a three-day official visit to Portugal beginning October 19. The West German Social Democrats intend to provide financial and technical aid to the Portuguese Socialists through party channels. Bonn is considering aid to Portugal at the government level. The West Germans are concerned about the weakness of the Socialist Party organization vis-a-vis the Communists, and Brandt will probably take a close look at the political situation in Portugal for the guidance of party and government planners in Bonn.

Swedish Prime Minister Palme and Norwegian Foreign Minister Frydenlund will visit Portugal from October 25 to 27, accompanied by representatives from their respective trade union organizations. Both leaders are expected to offer aid, in addition to discussing ways to help the Portuguese develop a democratic trade union movement. Norway's labor organization already has plans to begin training Portuguese trade unionists in Norway.

French Socialist leaders are concerned about the apparent inability of the Portuguese Socialists to moderate the dominant influence of the Communists. The Portuguese Socialists have appealed to their French counterparts to persuade the French Communist Party to intercede with the Portuguese Communists and suggest a softer, less aggressive line [redacted]

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[redacted] The French Socialists are willing to oblige and believe that the French Communists will be equally anxious to prevent "Stalinist" behavior

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by the Portuguese Communists. [redacted] 25X1  
[redacted] the French Communists are unlikely to have  
any real influence over the Portuguese party, which has,  
[redacted] emerged as the most "Stalinist" communist  
party in Europe. 25X1

The British Labor Party has maintained close ties  
with the Portuguese Socialists since the coup, particu-  
larly with party leader Mario Soares, who is also foreign  
minister. The British have offered the Portuguese party  
organizational and technical help, which the Portuguese  
welcomed but have not yet followed up. As its latest  
gesture, the Labor Party invited the Portuguese Social-  
ists to send observers to the recent British election. 25X1  
[redacted]

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CANADA-EC

Prime Minister Trudeau carries his drive to diversify Canada's foreign relations to Paris and Brussels next week, but he will probably be disappointed with the response.

The Canadian Prime Minister will meet with President Giscard and French officials on Monday and Tuesday and then go to Brussels for talks with EC and NATO officials. Trudeau's main goal is to get increased economic ties with the EC as part of his policy to decrease Canada's heavy dependence on the US.

The Paris meetings are designed to signal a warming of Canadian-French relations, which have been cool since De Gaulle made remarks favoring Quebec separatism during his visit to Montreal in 1964. Trudeau will also try to overcome French reservations about Ottawa's attempt to work out some type of "contractual arrangement" with the Nine.

In Brussels, Trudeau wants a joint announcement about the opening of Canadian-EC negotiations. The EC foreign ministers, however, failed to agree at their meeting last Wednesday on either the need or desirability of a trade agreement or "contractual link" with Canada. It was chiefly the French who objected to making a decision now to proceed with negotiations.

The Council did agree on a joint statement for Trudeau's visit that refers only to the importance of strengthening Canadian-EC ties in ways to be negotiated in the future. This falls far short of the announcement Trudeau wants.

It will be up to Ottawa to clarify to the Nine the type of arrangement it is seeking. The EC can then probably find some way of partially satisfying the Canadians with an arrangement that may be more symbolic than substantive.

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## FOR THE RECORD

USSR-Pakistan: Pakistani Prime Minister Bhutto's visit to Moscow next week will overlap Secretary Kissinger's. Bhutto is scheduled to arrive in Moscow on October 24 and leave on October 26; the timing of his visit was arranged by Moscow. Bhutto, who was last in Moscow in 1972, had hoped to go to the USSR as early as June of this year, but the Soviets abruptly postponed his visit twice. [REDACTED]

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Iraq-Czechoslovakia-Italy: Iraq is attempting to purchase armored personnel carriers (APCs) from Czechoslovakia and Italy, probably to mechanize one of its infantry divisions. Negotiations with Czechoslovakia for 100 OT-64 APCs began in Baghdad early this month. Baghdad is also negotiating with Rome for 200 M-113-A1 APCs, which are manufactured under a US licensing arrangement that calls for Washington's permission for third country sales. The US did sell 200 of these APCs to Iraq in the early 1960s. The Iraqi army has about 1,450 APCs, largely of Soviet and Czech design. [REDACTED]

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PORTUGAL

*The Bulletin today prints in abbreviated form the principal judgments of an interagency memorandum on Portugal, dated October 17.*

With Spínola's fall, the political balance in Portugal has shifted to the left. The process was helped by the Communists, but the shift does not necessarily portend a Communist takeover, certainly not in the short term. The pace and nature of recent events have, however, shortened the odds on orderly liberalization by raising the possibility that a leftist authoritarian regime will emerge or, through a counter coup, an authoritarian regime of the right.

The Armed Forces Movement, the most critical element in the Portuguese equation, is made up of generally younger officers numbering somewhere between 250 and 1,000. Some almost certainly are Communist Party members. Most appear to want to liberalize Portugal along modern European lines, although they are divided over how far and how fast this should go. The top leadership, headed by Prime Minister Gonçalves, is markedly leftist.

Costa Gomes' Role

President Costa Gomes, clearly central to the immediate future orientation of the government, remains something of an enigma.

He appears to command much more widespread loyalty from the armed forces than Spínola.

The Communists are the best organized and disciplined political grouping in Portugal and have developed a strong position in the labor unions and local governments. They have been able to win a greater degree of respectability than might have been expected, partly because of their conspicuously responsible behavior in such matters as helping the government end or avoid strikes.

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Of the other political forces, the non-communist left shows limited ability to develop mass appeal. The Socialists are divided internally: Marxists and progressive Catholic factions favor cooperation with the Communists, while social democrats, including Foreign Minister Soares, press for a more independent line.

The center remains disorganized and lacks nationally recognized leaders. The church is disposed to support liberalization in Portugal, but church leaders disagree over how to interpret the political upheavals and are moving cautiously.

**The Military's Role**

The armed forces remain the most powerful element in the Portuguese picture and may in the end arbitrate the direction the country takes. The military apparently is divided into three factions:

--Conservatives who supported the Caetano regime, only some of whom have been purged.

--The leftist leadership of the April coup, centered in the Armed Forces Movement.

--Centrists who supported the coup for a variety of reasons but who would oppose a Communist takeover.

If elections are held as scheduled next spring, some of the political uncertainties may be resolved, but there is no guarantee that elections will be held. The absence of effective political institutions and the threat of additional destabilizing political and economic events could easily lead to a return to authoritarian rule, either left or right.

Reaction to either could conceivably give rise to armed strife, though this is essentially unpredictable. Military loyalties are divided, reflecting many of the political divisions elsewhere in Portuguese society.

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Portugal's economic health will condition its political fortunes. Economic stability depends in large part on a return of business' confidence in a stable environment in which to operate, while the ability of Portugal to reach and survive free elections is heavily dependent on avoiding economic disaster.

If extrication from the African territories is smoothly carried out, a heavy economic burden will be eased, and the mutually beneficial economic relationship between Portugal and the territories should survive without serious disruption.

Portugal as a US Ally

The outcome of the political struggle in Portugal will determine its future role in NATO and as an ally of the US.

Portugal's chief military importance to NATO lies in the strategic value of some of its islands and territories. Madeira, the Cape Verde Islands, and especially the Azores are strategically situated with respect to Allied air and sea routes. The US base complex at Lajes will continue to be important throughout the 1970s, above and beyond NATO-related commitments.

The provisional government continues to affirm its intention to retain membership in NATO, to deal in good faith with the US over the Azores base in return for substantial military and economic aid, and to achieve closer association with the EC.

It seems probable, however, that the issue of Portuguese policy toward the US is the subject of divided opinion within the Armed Forces Movement and the provisional government itself. A moderate government would almost certainly maintain NATO and US ties, though its price for the Azores facilities would be higher and it might impose greater restrictions on US use of them. A government dominated by forces of the far left would be likely to weaken or break those ties.

The provisional government might move to de-emphasize Portugal's ties with NATO and the US, while seeking to strengthen relations with the EC and the social democratic parties and governments of Western Europe.

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